

Message Text

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SUBJECT: EDRC REVIEW OF IRELAND

REF: EDR(74)7

1. SUMMARY: DRAFT SURVEY (REFDOC) SEES WEAKER ECONOMY IN 1974 COUPLED WITH HIGHER RATE INFLATION. IT RECOMMENDS REDUCTION TAXES TO STIMULATE WEAKER PRIVATE CONSUMPTION AND CONTINUED EXPANSION PUBLIC WORKS PROGRAM. DRAFT SEES NO PROBLEM WITH LARGER CURRENT ACCOUNT DEFICIT, WHICH LARGELY OIL RELATED. END SUMMARY.

2. SECRETARIAT DRAFT REVIEW IRISH ECONOMY (REFDOC) AIR POUCHED WASHINGTON AND DIRECT MAILED EMBASSY DUBLIN (FURNESS) MARCH 1. REVIEW NOTES 1973 WAS PARTICULARLY SUCCESSFUL YEAR FOR ECONOMIC POLICY, WITH RAPID GROWTH OUTPUT MAKING UP FOR SLOW GROWTH TWO PREVIOUS YEARS. TWO DARK SPOTS WERE FURTHER ACCELERATION OF INFLATION, WITH CONSUMER PRICES RISING 12.5 PERCENT

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THROUGH 1973, AND DETERIORATION OF BALANCE PAYMENTS.

3. SECRETARIAT CONSIDERS INFLATION IS PRIME PROBLEM IRISH ECONOMIC POLICY. MAJOR SOURCE UNCERTAINTY IS FUTURE COURSE EMPLOYEE INCOMES. DRAFT RECOMMENDS GOVERNMENT TAKE MORE ACTIVE ROLE IN WAGE DETERMINATION, AND NOTES IT UNLIKELY THAT OPEN ECONOMY LIKE IRELAND CAN COMBAT INFLATION SUCCESSFULLY IF PRICE CONTROLS AND CENTRALIZED WAGE DETERMINATION ARE NOT SUPPLEMENTED BY DISCUSSIONS OF ACCOMPANYING FISCAL AND DEMAND MANAGEMENT POLICIES IN NEW NATIONAL ECONOMIC AND SOCIAL COUNCIL. CONSIDERABLE PART OF REVIEW IS DEVOTED TO INFLATION AND ITS RELATION TO PUBLIC FINANCE. DRAFT NOTES THAT PUBLIC SECTOR BORROWING WILL REMAIN LARGE COMPARED WITH OTHER COUNTRIES, AND FINANCING CONSIDERATIONS COULD BE A CONSTRAINT ON PUBLIC SECTORS' DESIRED GROWTH UNLESS MEANS ARE FOUND TO INCREASE THE SHARE OF SAVINGS WHICH IT NOW RECEIVES. BROADENING OF TAX BASE IS DESIRABLE FROM BOTH SHORT AND LONG TERM ECONOMIC POLICY POINTS OF VIEW.

4. SECRETARIAT ESTIMATES OIL PRICE HIKE WILL HAVE DIRECT AND INDIRECT ADVERSE IMPACT ON TRADE ACCOUNT OF ABOUT 130 MILLION POUNDS, OR ABOUT 4, PERCENT GDP. THIS CHANGE IS LARGEST AMONG OECD COUNTRIES IN TERMS GDP AND IS ROUGH INDICATION OF DEFLATIONARY IMPACT OIL PRICE INCREASE. DIRECT AND INDIRECT EFFECTS ON CONSUMER PRICES MIGHT ADD ABOUT 4 PERCENTAGE POINTS.

5. ON BASIS UNCHANGED POLICIES, GDP EXPECTED SLOW DOWN TO RANGE 2.5 TO 3 PERCENT IN 1974, WITH SOME FALL EMPLOYMENT. CONSUMER PRICES COULD RISE BY UP TO 15 PERCENT. MAIN CONSTRAINT ON GROWTH WOULD BE DEFICIENT DOMESTIC DEMAND, WITH PRIVATE CONSUMPTION PARTICULARLY WEAK RELATED MAINLY IMPORTED INFLATION. DRAFT REVIEW THEREFORE SUGGESTS IRISH POLICY SHIFT TO EXPANSIONARY STANCE BY STIMULATING PRIVATE CONSUMPTION THROUGH TAX REDUCTIONS AND BY CONTINUED EXPANSION PUBLIC WORKS PROGRAMS. EXPECTED INCREASE IN CURRENT ACCOUNT DEFICIT SHOULD NOT BE EXAGGERATED, ACCORDING SECRETARIAT, BECAUSE IT IS LARGELY RELATED LIMITED OFFICIAL USE

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OIL PRICE INCREASES, EFFECTS OF WHICH CAN ONLY BE OFFSET OVER NUMBER YEARS.
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